TRUMP, TWEETS, TARIFFS AND MARKET VOLATILITY

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Investors may be wondering why there is so much volatility in the stock markets. One day they're up and the next they're down – sometimes taking wild swings within the day. Whether you are invested in Canadian, US or global stocks, volatility has been rising due to uncertainty over the impacts to global growth rates from increased tensions on trade issues. In this article, we address the uncertainties around trade that are buffeting global stock markets and provide some strategies investors can adopt to manage through the turmoil.

What is a tariff and why does it matter to stock markets?

A tariff is essentially a tax on an imported good or service, that one country imposes on another. In the United States, the Constitution gives the power to the Congress to levy taxes and duties. However, President Trump has been using Presidential powers to levy tariffs on goods coming from countries such as, Canada, Europe, China and Mexico. He recently lifted tariffs on steel and aluminum from Canada, Europe and Mexico to move forward on signing the new North American Free Trade (NAFTA) agreement, which remains unsigned. Many companies that trade on the stock market are impacted by these tariffs, which is how these developments impact market returns.

Who pays the tariffs?

The importing company pays the tariffs. This is important because some, including President Trump, think the country he applies tariffs to is the one paying. For example, Trump seemingly believes that China is paying the tariffs the US has recently imposed on it. This is not completely accurate. In the United States, the US Customs and Border Protection charges the US importer for the tariffs. That is, tariffs are borne by the buyer, not the seller. These added costs can be passed along to the consumer or absorbed by companies along the supply chain.

How can an importer manage the tariffs? They can:

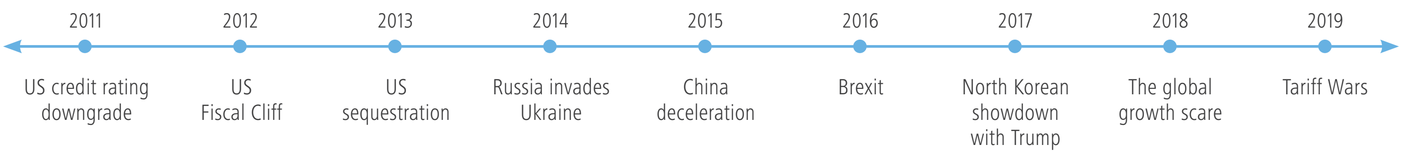
1. Pay the full cost and profits suffer or cut their own costs to offset profit decline
2. Ask the foreign suppliers to lower their prices
3. Pass the costs to the consumer which raises prices

Why the market volatility?

Another day, another Trump tweet - this time on international trade. Investors don't like uncertainty and unpredictability. With Trump, you have both, as he surprises markets by using Presidential executive power to launch tariffs on anything and any country he pleases, citing any reason he chooses.

Investors are on edge over the latest salvos from Trump against China and Mexico. These new tariff threats have impacted world stock markets over fear that rising trade tensions between the US and its major trading partners around the world will negatively impact consumer and business confidence. That would result in lower spending by both, which would reduce the world's GDP growth rate.

Events that have caused short-term market declines

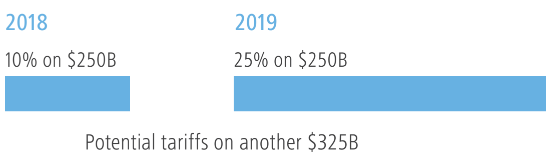


Since these occurrences, markets have rebounded. **Annualized Stock Market Return: 12.62%^**

^ Source: Bloomberg as at May 31, 2019 for the period 1/1/2011 - 5/31/2019. Stock Market Return (annualized rate of return) is represented by MSCI World Index in CAD and is based on reinvested dividends.

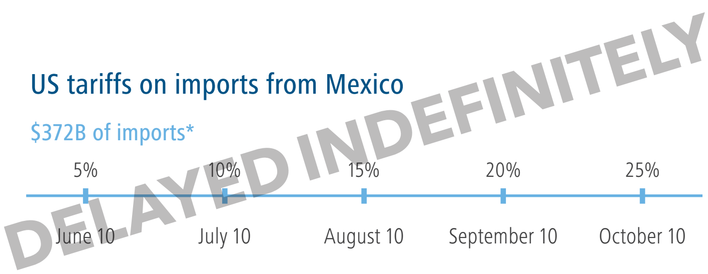
By the numbers

US tariffs on imports from China



Source: US Census Bureau, BBC research. note: data as of May 8, 2019

US tariffs on imports from Mexico



* https://ustr.gov/countries-regions/americas/mexico

What you can do

To navigate this kind of turmoil, as we have navigated turmoil in past situations, we have a few recommendations:

1. Remain calm and avoid buying or selling out of fear,
2. Re-balance your portfolios to control risk,
3. Understand your risk levels and invest accordingly,
4. Take the long-term view.

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